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Message Text

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ACTION XMB-04

INFO OCT-01 ARA-10 EUR-12 ISO-00 EB-08 COME-00 OMB-01
TRSE-00 CIAE-00 INR-10 NSAE-00 INT-05 DOE-15
SOE-02 OES-07 AID-05 L-03 EA-10 STR-07 /100 W
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R 121435Z MAY 78
FM AMEMBASSY MANAGUA
TO SECSTATE WASHDC 6568
INFO AMEMBASSY BRASILIA
AMEMBASSY OTTAWA
AMEMBASSY SAN JOSE

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E.O. 11652: N/A
TAGS: BEXP, ENRG, NU
SUBJECT: NICARAGUA SEEKS FINANCING FOR EL BRITO HYDROELECTRIC PROJECT

REF: MANAGUA 1851

SUMMARY: THE GON IS INTERESTED IN OBTAINING EXIMBANK FINANCING FOR ENGINEERING AND DESIGN STUDIES OF THE BRITO HYDROELECTRIC PROJECT FOR WHICH THE U.S. BUREAU OF RECLAMATION IS ALREADY COMPLETING A FEASIBILITY STUDY. IT APPEARS THAT THE BRITO PROJECT NOW HAS A GOOD CHANCE OF GETTING PRIORITY CONSIDERATION FROM THE GON WHICH MUST CHOOSE SOON FROM AMONG VARIOUS NEW ENERGY PROJECTS IF NICARAGUA'S ECONOMIC DEVELOPMENT IS NOT TO BE HELD BACK. IF EXIMBANK AGREES TO FINANCE THOSE STUDIES, US FIRMS WOULD PROBALBY BE IN A BETTER POSITION TO PARTICIPATE IN THE CONSTRUCTION AND EQUIPPING OF BRITO. AT THE MOMENT, JAPANESE, CANADIAN AND BRAZILIAN INTERESTS APPEAR TO HAVE THE INSIDE TRACK ON GETTING BUSINESS FROM THE OTHER PENDING GEOTHERMAL AND HYDROELECTRIC PROJECTS. EMBASSY STRONGLY URGES THAT EXIMBANK GIVE
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CAREFUL AND FAVORABLE CONSIDERATION TO FINANCING THE BRITO STUDIES. ACTION REQUESTED: THAT EXIMBANK FURNISH EMBASSY WITH ITS REACTION. END SUMMARY

1. ING. REMY RENER, VICE MINISTER FOR ATLANTIC COAST DEVELOPMENT, APPROACHED EMBASSY LAST WEEK TO SEEK LATTER'S ASSISTANCE IN FACILITATING EXIMBANK FINANCING FOR

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ENGINEERING AND FINAL DESIGN STUDIES OF THE EL BRITO HYDROELECTRIC PROJECT. RENER SAID THAT THE U.S. BUREAU OF RECLAMATION TEAM WHICH IS PREPARING THE FESIBILITY STUDY FOR THAT PROJECT, UNDER CONTRACT WITH THE GON, WILL HAVE A PRELIMINARY REPORT READY BY MAY 15. HE ESTIMATED THE COST OF THE DESIGN STUDIES, WHICH WOULD INCLUDE PREPARATION OF BID DOCUMENTS FOR THE PROJECT ITSELF, AT ABOUT $1.5 MILLION. RENER INQUIRED WHETHER EXIMBANK WOULD PERMIT SEVERAL CONSULTING COMPANIES TO SUBMIT TECHINICAL PROPOSALS FOR THE STUDIES CONTRACT IF IT SHOULD AGREE TO FINANCE THE ENGINEERING AND DESIGN STUDIES. EMBOFF UNDERTOOK TO RAISE THESE QUESTIONS WITH WASHINGTON.

2. THE BRITO HYDROELECTRIC PROJECT, AS NOTED PARA 5 REFTEL, EVVISAGES REVERSING THE DIRECTION OF FLOW OF LAKE NICARAGUA'S WATERS FROM THE ATLANTIC TO THE PACIFIC SO AS, INTER ALIA, TO GENERATE HYDROELECTRIC POWER. THE PROJECT REQUIRES THE DAMMING OF THE LAKE'S OUTFLOW INTO THE RIO SAN JUAN AND THE CUTTING OF THE CONTINENTAL DIVIDE NEAR RIVAS SO THAT THE LAKE'S BLOCKED WATERS CAN FLOW INTO THE PACIFIC THROUGH THE EL BRITO RIVER, THEREBY GENERATING SOME 250 MW OF POWER. THE LAKE IS 31 METERS ABOVE SEA LEVEL. RENER'S OFFICE ESTIMATES THE PROJECT'S COST AT $250 MILLION; IT COULD WELL PROVE HIGHER. RENER HOPES CONSTRUCTION CAN BEGIN IN 1979 AND BE COMPLETED BY 1982.
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3. THE BRITO PROJECT IS ACTUALLY PART OF A LARGER MULTI-PURUPOSE PLAN. RENER HOPES THAT, ONCE THE JYDRO-ELECTRIC PLANT AT BRITO PROVES ECONOMICAL, CONSIDERATION WILL E GIVEN TO IMPLEMENTING THE RELATED TAMARINDO-TIPITAPA PROJECT. THE LATTER WOULD REQUIRE THE PUMPING OF WATER FROM LAKE NICARAGUA, VIA TIPITAPA, TO LAKE MANAGUA (ALTITUDE, 39 METERS). THIS WOULD HELP TO FLUSH OUT THAT DYING LAKE AND PROVIDE IRRIGATION TO NICARAGUA'S BEST, PACIFIC SLOPE, FARM LANDS. FURTHER HYDROELECTRIC POWER COULD BE GENERATED BY CHANNELING SOME OF LAKE MANAGUA'S WATERS TO THE PACIFIC VIA A CUT TO, AND FYDRO-ELECTRIC PLANT ON, THE TAMARINDO RIVER.

4. UNTIL RECENTLY, RENER WAS THE GON OFFICIAL RES-PONSIBLE FOR ADVANCING BOTH THE BRITO AND THE COPALAR HYDROELECTRIC PROJECTS. THE LATTER IS A $400-500 MILLION PROJECT FOR WHICH CANADIAN AND BRAZILIAN FINANCING HAD SUPPOSEDLY BEEN LINED UP. PRESIDENT SOMOZA REMOVED COPALAR FROM RENER'S JURISDICTION AFTER RENER HAD SOUTHT TO FIRE EDDIE RODRIQUEZ-FELIU, A CUBAN-BORN PROMOTER ON WHOSE FINAINCIAL WIZARDRY SOMOZA

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HAD COME TO DEPEND. RENER REPORTEDLY BLAMED FELIU
FOR BRAZIL'S DECISION A FEW MONTHS AGO TO BACK OUT OF THE
FINANCIAL PACKAGE AT LEAST TEMPORARILY. (CANADA MAY HAVE
BACKED OUT, TOO, A MONTH AGO.) PERHAPS PARTLYOUT OF PIQUE
FOR HAVING HAD THE COPALAR PROJECT TAKEN AWAY FROM HIM,
RENER IS NOW PUSHING HARD TO GET THE BRITO PROJECT
MOVING. (COMMENT: IT SHOULD BE NOTED THAT RENER'S
ENTHUSIASM FOR BRITO IS NOT MOTIVATED SOLELY BECAUSE HIS
ROLE IN COPALAR HAS BEEN ENDED. HE HAD BEEN GROWING
INCREASINGLY ENTHUSIASTIC ABOUT BRITO'S POSSIBILITIES
OVER THE PAST YEAR OR SO AND HAD SOUGHT TO PUSH THAT
PROJECT IN ADDITION TO, AND NOT INSTEAD OF, COPALAR.)

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5. NICARAGUA DOES FACE A SERIOUS POWER SHORTAGE EVEN
NOW, AND CURRENTLY DEPENDS ON THERMAL POWER, USING
IMPORTED OIL, FOR NEARLY 85 PERCENT OF ITS ELECTRIC
POWER. CONSTRUCTION OF A 35-MW, JAPANESE-FINANCED
AND SUPPLIED, GEOTHERMAL LANT AT MOMOTOMBO WILL HELP
TO ALLEVIATE THESE PROBLEMS WHEN THAT FACILITY GOES ON
STREAM IN 1980 OR '81. IT SEEMS LIKELY THAT THE GON
WILL ASK THE JAPANESE TO PROVIDE TWO ADDITIONAL AND
COMPATIBLE, 35-MW, GEOTHERMAL GENERATING UNITS AT
MOMOTOMBO OVER THE NEXT FEW YEARS. (COMMENT: THIS IS
AN EXAMPLE OF HOW JAPAN GOT ITS FOOT IN THE DOOR WITH
THE FIRST UNIT AND WILL LIKELY GET THE FOLLOW-ON
BUSINESS AT THE MOMOTOMBO SITE.)

6. NICARAGUA WILL NEED CONSIDERABLY MORE POWER, HOWEVER,

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IF ITS ECONOMY IS TO EXPAND. IT WILL ALSO WANT TO
CONTINUE TO REDUCE ITS DEPENDENCE ON EXPENSIVE, IMPORTED
FUEL. THE ONLY PRACTICAL WAY FOR NICARAGUA TO ACCOMPLISH
THESE TWO OBJECTIVES IS BY FURTHER DEVELOPING ITS GEOTHER-
MAL AND HYDROELECTRIC RESOURCES. AND IT WILL HAVE TO
DECIDE SOON AS TO WHICH PROJECTS TO MOVE AHEAD ON.
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7. THUS FAR, NON-U.S. SUPPLIERS HAVE THE INSIDE TRACK
ON BOTH GEOTHERMAL AND HYDROELECTRIC PROJECTS: JAPAN
FOR MOMOTOMBO, AND CANADA AND BRAZIL FOR COPALAR, IF THE
LATTER EVENTUALLY MOVES FORWARD. (THE GON DID NOT DROP
COPALAR, BUT ONLY POSTPONED IMMEDIATE ACTION ON IT.
A CANADIAN CONSORTIUM, INCIDENTALLY, DID THE FEASIBILITY
STUDY FOR COPALAR IN COLLABORATION WITH ONE OF FELIU'S
FIRMS).

8. WE FEEL THAT THE BRITO PROJECT IS, ON ITS FACE, A
GOOD ONE. IT IS, MOREOVER, ONE IN WHICH THE US ALREADY
HAS ITS FOOT IN THE DOOR THROUGH THE BUREAU OF RECLAM-
ATION'S PREPARATION OF THE FEASIBILITY STUDY. IF A US
FIRM WERE TO PREPARE THE ENGINEERING AND DESIGN
STUDIES (I.E. DRAW UP THE BID SPECIFICATIONS), THESE
PROJECT SPECIFICATIONS WOULD PROBABLY BE ORIENTED TOWARDS
US EQUIPMENT AND ENGINEERING TECHNIQUES. MOREOVER,
IT SEEMS PROBABLE THAT THE GON WILL TURN TO INTERNATIONAL
FINANCIAL INSTITUTIONS IN SEEKING FINANCING FOR BRITO.
IF SUCH FINANCING (OR US-ORIGIN FINANCING FOR THE PRO-
JECT ITSELF) BECOMES AVAILABLE, US FIRMS SHOULD BE IN
A BETTER POSITION TO BID SUCCESSFULLY FOR MAJOR PROTIONS
OF THE PROJECT, I.E., ASSUMING THAT THE SPECIFICATIONS
WERE U.S.-ORIENTED.

9. IN CONCLUSION, EMBASSY STRONGLY RECOMMENDS THAT
EXIMBANK GIVE CAREFUL, AND HOPEFULLY FAVORABLE, CON-
SIDERATION TO A GON REQUEST FOR FINANCING OF ENGINEERING
AND DESIGN STUDIES FOR THE BRITO HYDROELECTRIC PROJECT.
EMBASSY LOOKS FORWARD TO HEARING EXIMBANK'S REACTION.
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